

3. General medical supplies stocked on floor in gross supply and distributed in small quantities, including isopropyl alcohol, hydrogen peroxide, applicators, cotton balls, tongue depressors.
4. Items furnished routinely and relatively uniformly to all residents, such as water pitcher, glass and tray, wash basin, emesis basin, denture cups, bedpan, urinal, thermometer, and hospital type resident gowns.
5. First aid supplies, including small bandages, merthiolate, mercurochrome, hydrogen peroxide and ointments for minor cuts and abrasions, etc.
6. Enema supplies, including equipment, solutions and disposable enemas.
7. Douche supplies, including vaginal or perineal irrigation equipment, solutions and disposable douches.
8. Special dressings, including gauze, 4 x 4's ABD pads, surgical and micropore tape, telfa gauze, ace bandages, and cast materials.
9. Administration of oxygen, related equipment and medications including oxygen, oxygen concentrators, cannulas, mask, connecting tubing, IPPB, Pulmo-Aide, nebulizers, humidifiers and related respiratory therapy supplies and equipment.
10. Pressure relieving devices including, air or water mattresses or pads, fleece pads, foam pads and rings, disposable underpads and diapers, waterproof sheeting and pants.
11. Disposable diapers and other incontinence items used as a means of caring for incontinent residents.
12. Special diets, salt and sugar substitutes, supplemental feedings, special dietary preparation, equipment required for preparing and dispensing tube and oral feedings, special feeding devices.
13. Daily hair grooming/shaving performed by a facility staff member. (Does not include service performed by licensed barber or beautician except as an employee of the facility).
14. Comb, brush, toothbrush, toothpaste, toothettes, lemon glycerin swabs, denture cream, razor, razor blades, soaps and breath fresheners, mouthwashes, deodorants, disposable facial tissues, sanitary napkins, and similar personal hygiene items. Residents who choose not to use the brand furnished by the facility must purchase their own items, and the costs of

SUPERSEDES: TN - 81-14

A	
STATE - <u>GA</u>	DATE REC'D - <u>7-3-99</u>
DATE REC'D - <u>7-28-99</u>	DATE APP'D - <u>7-1-99</u>
DATE APP'D - <u>7-1-99</u>	DATE EFF - <u>99-09</u>
DATE EFF - <u>99-09</u>	HCFA 179

the items are not allowable costs.

15. Personal laundry services for residents (does not include dry cleaning).
16. Equipment required for dispensing medications, including needles, syringes, paper cups, medicine glasses.
17. Equipment required for simple tests and examinations, including sphygmomanometers, stethoscopes, clinitest, acetist, dextrostix, scales, glycometer.
18. Equipment required by the Arkansas Department of Human Services for licensure which is available for use by all residents. Includes trapeze bars and overhead frames, foot boards, bed rails, cradles, wheelchairs, geriatric chairs, foot stools, adjustable crutches, canes, walkers, bedside commode chairs, hot water bottles or heating pads, ice bags, sand bags, traction equipment.
19. Other equipment required to adequately care for residents including suction machines, connecting tubing, catheters, suture removal trays, airways, infusion arm boards, sun or heat lamps, chest or body restraints, slings.
20. Food and nonalcoholic beverages, dietary and food service supplies, and cooking utensils.
21. Housekeeping supplies, office supplies, and materials and supplies for the operation, maintenance, and repair of buildings, grounds, and equipment.
22. Equipment and supplies to meet the activity needs of residents as required by state and federal regulations including the needs of room bound residents.

A				
STATE	DATE REC'D	DATE APP'D	DATE EFF	HCFA 179
0	5-2-99	7-28-99	7-1-99	99-08

G. Drugs.

1. All drugs furnished by a facility must be administered in conformity with a physician's written order or prescription.
2. Over-the-counter drugs (PRN or routine) not covered by the prescription drug program are allowable cost items. These include but are not limited to simple pain relievers, antacids, mouthwashes, simple laxatives and suppositories, simple cough syrups, antidiarrheal medications, insulin and insulin needles (regardless of frequency).

SUPERSEDES: TN - 80-1

- H. Cost of specialized rehabilitative services including physical, speech, occupational and mental health, in facilities provided by licensed therapist when such treatment is ordered by a physician. However, these costs will not include the direct cost of services reimbursed by Medicare Part A, Medicare Part B, or other third party payer.”
- I. Utilities. This includes electricity, natural gas, fuel oil, water, wastewater, garbage collection and telephone. The costs of staff personal calls and individualized resident telephone services including long distance are not allowable.
- J. Property and Equipment Expenses
1. Amortization Expense - Legal and other costs incurred when financing the facility must be amortized over the life of the mortgage.
 2. Depreciation Expense - Depreciation on the facility's buildings, furniture, equipment, leasehold improvements and land improvements.

Depreciation on capital assets, including assets for normal standby or emergency use in which the facility is the record title holder and which assets are used to provide covered services to Medical Assistance Recipients, is an allowable cost subject to the following conditions:

- a) Generally accepted accounting principles incorporating the straight-line method of depreciation must be used. Accelerated methods of depreciation are not acceptable. Facilities must follow American Hospital Association Guidelines for Depreciation as the basis for calculation of straight-line depreciation. It is not required to deduct salvage value from the cost of the asset for the purpose of calculating depreciation. Component depreciation for physical structures is not acceptable.

Depreciation expense for the year of acquisition and the year of disposal can be computed by using: (1) the half-year method; or (2) the actual time method.

- b) The method and procedure for computing depreciation must be applied from year-to-year on a consistent basis.
- c) The assets shall be recorded at cost. Cost during the construction of an asset, such as architectural, consulting and legal fees, interest, etc., must be capitalized as a part of the cost of the assets. When an asset is acquired by trade in, the cost of the new asset is the sum of the book value of the old asset and any cash or issuance of debt

A				
STATE	DATE	DATE	DATE	HCFA 179
Kansas	5-3-99	7-28-99	7-1-99	99-09

SUPERSEDES: TN-80-1

as consideration paid.

- d) Leasehold improvements may be depreciated over the asset's useful life or the remaining life of the lease, whichever is less.
- e) Losses realized from the reasonable disposal or transfer of depreciable assets are an allowable cost. Gains realized from the disposal or transfer of depreciable assets are revenue adjustments to be deducted from allowable depreciation costs.
- f) As a basis for allowing depreciation on capital building construction or renovation costs exceeding \$500,000, prior approval of the Arkansas Health Services Agency must be secured to meet the requirements of Section 1122 of Federal Social Security Act. If the prior approval is not obtained, no depreciation cost will be allowed for expenditures for such capital building construction or renovation, unless such approval is subsequently received, although operational costs will be considered as a regular expense.
- g) Where purchase of a facility or improvements thereto are financed by tax exempt bonds, the acquired property, plant or equipment must be capitalized and depreciated over the life of the asset. The depreciation and not the installment payment is considered an allowable cost. The amortization of interest in accordance with the terms of the bond issue is an allowable cost. Where the principal amount of the bond issue was expended in whole or in part on capital assets which fail to meet the requirements above regarding eligibility for depreciation, the includable depreciation shall be proportionately reduced.
- h) Fixed asset records shall be maintained. The records shall include: The depreciation method, a description; the date acquired; cost; depreciable cost; estimated useful life; depreciation for the year and accumulated depreciation. Salvage value is not required to be maintained.
- i) A funded depreciation account for future replacement of assets must be maintained for depreciation allowed on assets obtained through federal or state funds or grants, e.g., legacy foundation grant, Hill-Burton grants, etc.

3. Interest expense includes interest paid or accrued on notes, mortgages and other loans, the proceeds of which were used to purchase the facility's land, buildings and/or furniture and equipment. Intra/Inter Company

Arkansas	
STATE	DATE REC'D
5-3-99	DATE APVD
7-28-99	DATE EFF
7-1-99	HCFA 179
99-09	

SUPERSEDES: TN-91-25

transactions should be handled according to Generally Accepted Accounting Principles.

- a) To be allowable under the Medicaid Program, interest must be supported by evidence of an agreement that funds were borrowed and that payment of interest and repayment of funds are required, identifiable in the provider's accounting records, related to the reporting period in which costs are incurred, necessary to the operation, maintenance, or acquisition of the provider's facilities, and be incurred for a purpose related to resident care.
- b) Allowable interest expense on loans from a related party is limited to the maximum interest rate equal to the Prime Commercial Rate reported by the St. Louis Federal Reserve Bank.
- c) Interest applying to mortgages on the property and plant of the facility will be included in allowable costs. Where a provider leases facilities from a related organization and the rental expense paid to the related organization is not allowable as cost, the mortgage interest paid by the related organization is allowable to the provider as cost, as are the other costs of ownership of the leased facility such as property insurance, depreciation, and real estate taxes.
- d) Interest incurred at a rate not in excess of what a prudent borrower would have had to pay in the open market existing at the time the loan was made will be recognized. Allowable costs for interest may not exceed limitations set by any state or federal law or the law of the state in which the loan originated. Allowable costs for interest may not include penalties or late charges.

- 4. Cost of fire and casualty insurance on facility buildings and equipment.
- 5. Taxes levied on the facility's land, buildings, furniture and equipment.
- 6. Cost of leasing the facility's real property. The lease must classify as a true operating lease. (Any lease that transfers substantially all of the benefits and risks of ownership should be accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee in accordance with generally accepted accounting principles.)
- 7. Cost of leasing the facility's furniture and equipment.

A	
STATE	Kansas
DATE REC'D	5-3-99
DATE APP'D	7-28-99
DATE EFF	7-1-99
HCFA 179	99-09

SUPERSEDES: TN-81-14

8. Sale and leaseback transactions will not be recognized for reimbursement purposes. Only those costs associated with the owner of record prior to the sale and leaseback transaction will be considered for reimbursement.

K. Transportation costs.

1. The per mile deduction for business travel fixed by the Internal Revenue Service may be claimed for each facility vehicle mile traveled for resident transportation or business use related to resident care, as established by mileage records. The cost of a vehicle provided to a key staff person for his or her use shall be included in the compensation for that individual.
2. If the facility acquires and maintains one or more vehicles designed and equipped to carry more than seven passengers, one or more vehicles equipped to transport residents that require wheelchairs for mobility, or the cost of a vehicle used exclusively for maintenance of the facility for which it is claimed, the facility may opt not to claim the Internal Revenue Service's rate per mile and instead claim reimbursement of the actual vehicle costs to provide resident transportation in that vehicle or vehicles to the extent such costs conform to Internal Revenue Service rules for vehicle business use.
3. The per mile rate allowable by the Arkansas Department of Finance and Administration to reimburse state employees for travel by private aircraft.

L. Business and professional association dues. These dues are limited to associations devoted exclusively to issues of recipient care.

M. Outside training costs. These costs are limited to direct costs (transportation, meals, lodging, and registration fees) for training provided to personnel rendering services directly to the recipients or staff of individual facilities. To qualify as an allowable cost, the training must be:

1. located within the State of Arkansas or a contiguous state within 250 miles of the facility; and
2. related to recipient care; and
3. related to the employee's duties in the facility.

N. Costs incurred by members of the facility governing body to attend meetings at the facility or, if the governing body is responsible for more than one facility, at a location central to such facilities. Allowable costs are limited to a maximum of four meetings per calendar or facility fiscal year, are limited to meetings during

SUPERSEDES: TN - New 9/8

A	
STATE -	Kansas
DATE REC'D -	5-3-99
DATE APD -	7-28-99
DATE LT -	7-1-99
DATE BY -	99-09

which facility management and operations related to resident care constitute the majority of business discussed, and may not exceed the amounts payable to members of state boards pursuant to Ark. Code Ann. §25-16-901 and Ark. Code Ann. §25-16-902 for travel to and attendance at state board meetings.

- O. Interest expense on working capital loans: Working capital is defined as funds borrowed to meet the expenses of daily operations. Working capital interest expense is not allowable on loan amounts up to and including the amount of equity withdrawn from the facility during the six months preceding the working capital loan or during the term of the working capital loan. For purposes of this paragraph, equity withdrawals do not include withdrawals necessary to pay allowable facility salaries or withdrawals necessary to make federal and state tax payments. The allowance for federal and state taxes will be limited to no more than 30 percent of the net income reported on the most recent Form 5.

Amounts paid in excess of allowable salaries will be considered a withdrawal of equity. Net income must be adjusted for salaries in excess of allowable.

No working capital interest will be allowed when the facility has cash on hand equal to or greater than two months' operating expenses.

- P. Costs determined by the DHS audit staff to have been claimed under circumstances identical in all material respects to costs that have been allowed by final appeal decision. An appeal decision is final if no additional appeal is provided for by law, or if the time to file an additional appeal has expired.

3-3 List of Unallowable Costs

The following list of unallowable costs is not all inclusive, but rather serves as a general guide and clarifies certain key expense areas. The absence of a particular item does not necessarily mean that it is an allowable cost. Except where specific exceptions are noted, the allowability of all costs is subject to the general principle specified in section 3-1 of this chapter.

- A. Compensation in the form of salaries, benefits, or any form of perquisite provided to owners, partners, officers, directors, stockholders, employees, or others who do not provide services necessary to facility operations or recipient care;
- B. Personal expenses not related to the provision of long-term recipient care in a facility;
- C. Costs for a private duty nurse or sitter;

SUPERSEDES: TN - 801

A				
STATE - C	DATE REC'D	DATE APPEAL	DATE LIT	HCPA 179
	5-3-99	7-28-99	2-1-99	99-09

- D. Forms of compensation that are not clearly enumerated as to dollar amount or which represent profit distributions;
- E. Management fees paid to a related organization that exceed the actual cost of materials, supplies, or services;
- F. Costs of advertising to the general public which are intended to attract residents to the facility (for example: advertising in the yellow pages of the telephone directory exceeding the advertisement that is free with a business line).

The cost of advertising related to classified advertisements for labor and supplies are allowable costs and should be included in the Administrative and Operating Expenses section;

- G. Business expenses not related to the care of recipient or necessary for the operation of a long-term care facility. This includes all costs of business investment activities, stockholder and public relations activities, and farm and ranch operations;
- H. Political contributions and lobbying expenses including any portion of professional or other association dues or fees which is used for these purposes;
- I. Depreciation and amortization of unallowable costs. This includes amounts in excess of those resulting from the straight-line method, capitalized lease expenses in excess of actual lease payments, and amortization of goodwill or any excess above the actual value of physical assets at the time of purchase;
- J. Amounts donated to charitable or other organizations;
- K. Dues to all types of organizations and associations not related to facility resident care;
- L. Entertainment expenses not related to resident care;
- M. Cost of radios and television sets used in the residents' rooms, or cost of providing cable TV to residents' rooms;
- N. Expense incurred for services provided in a facility but not related to long-term recipient care. This includes meals provided to others than recipients or facility employees as a part of an employment contract, nonmedical rentals, barber and beauty shop operations, canteens and gift shops, and vending machines;
- O. Retainers, and honorariums;

SUPERSEDES: TN - 81-14

A				
STATE	DATE REC	DATE APP'D	DATE EFF	HCFA 179
CA	5-3-99	7-28-99	7-1-99	99-09

- P. Fines and penalties for violations of regulations, statutes, and ordinances of all types;
- Q. Fund raising and promotional expenses;
- R. Interest expenses on loans pertaining to unallowable items. Otherwise allowable interest expense on short-term indebtedness must be reduced or offset by interest income as specified in Section 3-4 of this Chapter;
- S. Insurance premiums pertaining to items of unallowable cost;
- T. Cost of life insurance on officers and key employees of the facility where the company is the direct or indirect beneficiary. The cost of premiums for term policies on the lives of key officers or employees will be allowable provided that securing such policies was a condition precedent to the provider's obtaining financing to improve resident facilities and when such condition is a customary business practice of the lender. However, these premiums will be considered allowable only to the extent that coverage equals the unpaid principal balance;
- U. Costs associated with portions of a facility that are not licensed as a NF or ICF/MR. Costs must be allocated between licensed and unlicensed portions of a facility based upon objective measures;
- V. Planning and evaluation expenses for the expansion of an existing facility or for new business opportunities. Expense will be capitalized and amortized on the records of the appropriate facility if actual construction occurs;
- W. Costs of motor vehicles, except as allowed in 3-2.K;
- X. Values assigned to the services of unpaid workers and volunteers;
- Y. Costs of purchases from a related party which exceed the lesser of the original cost to the related party or fair market value;
- Z. Out-of-state travel expenses, except as allowed in Section 3-2 M;
- AA. Legal and other costs associated with litigation between the provider and the state or federal agencies administering the Medicaid program;
- BB. Penalties and insufficient funds charges by banks;
- CC. Undocumented cost;
- DD. Federal, state, and local income taxes;
- SUPERSEDES: TN - 86-2**

A				
STATE	DATE REC	DATE APP'D	DATE EFF	HCF 173
Q - Medicaid	2-2-99	7-28-99	7-1-99	99-09

- EE. Prescription drugs;
- FF. Accounts receivable written off as uncollectable, including bad debts incurred from private pay residents, Medicare, or Medicaid recipients;
- GG. Personal telephone service;
- HH. Costs of owning, leasing or operating boats;
- II. Costs of chaplaincy training programs;
- JJ. Cosmetics;
- KK. Barber and beautician services provided by personnel not employed within the facility;
- LL. Dry cleaning services for residents.
- MM. Salaries, wages, and benefits paid for undocumented or duplicated duties, services, and management activities.
- NN. Interest related to the acquisition and retirement of treasury stock is not an allowable cost. Treasury stock is not an asset and should be carried on the balance sheet as a reduction of equity capital. All costs relating to the retirement of stock shall not be considered allowable. Transactions in stock or equity which benefit stockholders, partners, and ownership interest will not be recognized.
- OO. Interest expense, finance charges, and service charges on loans, mortgages, and bond issues, where the proceeds of such loans, mortgages, and bond issues are used to acquire stock ownership of additional facilities are not allowable costs.
- PP. Interest on proceeds from loans not necessary for facility operations or used for investments are not allowable costs.

Items That Will Reduce Allowable Costs

- A. Interest income on unrestricted funds will reduce interest expense on all short-term debt not to exceed interest expense. Short-term debt will be defined as debt having a term of 48 months or less.
- B. Grants, gifts, and income designated by the donor for specific operating expenses must be used as an offset to those specific operating expenses.

ATTACHMENTS: TN -

86-2

STATE C	
DATE REC'D	5-3-99
DATE APP'D	7-28-99
DATE EFF	7-1-99
HCFA 179	99-09